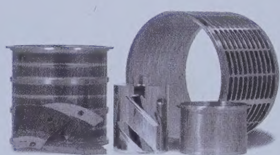
ANNUAL REPORT 2003

ADVANCED FIBER TECHNOLOGIES (AFT) INCOME FUND



A GROWING PRESENCE

aft

PROFILE Advanced Fiber Technologies (AFT) Income Fund is a limited purpose trust established to hold the securities of Advanced Fiber Technologies (AFT) Trust. AFT is one of the world's oldest and largest producers of pulp screening components, having celebrated its 100th year of operations in March 2003.

AFT uses its advanced screening and refining component technology and in-depth knowledge of pulp screening and refining processes to provide customized screening and refining solutions to pulp and paper producers. Pulp screens are used to remove contaminants from pulp, a process that is critical to ensuring the quality of the pulp and, in turn, the quality of the resulting paper products. Pulp refining is an adjacent process to pulp screening, and is mostly used to enhance pulp properties.

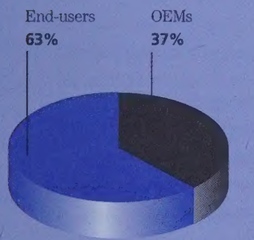
STRATEGIC APPROACH AFT's business strategy is based on helping its customers reduce their total costs by offering differentiated technology and services. This enables them to optimize mill production, increase mill capacity, reduce fiber loss and lower energy consumption.

DEFINITIONS
The "Fund" means Advanced Fiber Technologies (AFT) Income Fund. "AFT" refers to Advanced Fiber Technologies (AFT) Trust and its subsidiaries.

(thousands of dollars, except per-unit amounts and number of units)	For the year ended December 31, 2003 (12 months) $	For the period ended December 31, 2002 (9 months)[1] $
SELECTED FINANCIAL INFORMATION		
Sales	**78,045**	54,472
Earnings before income taxes	**8,382**	7,129
Plus		
Depreciation and amortization	**10,228**	6,598
Less		
Current income taxes	**(344)**	(37)
Maintenance capital expenditures	**(1,226)**	(952)
Distributable cash	**17,040**	12,738
Distributable cash per unit (in dollars)	**1.30**	0.97
Distributions declared per unit (in dollars)	**1.20**	0.91
Basic weighted average number of units	**13,088,784**	13,083,333
Diluted weighted average number of units	**13,639,376**	13,392,846[2]
BALANCE SHEET		
Total assets	**174,516**	170,916
Unitholders' equity	**110,227**	119,473
Long-term obligations	**46,089**	39,614

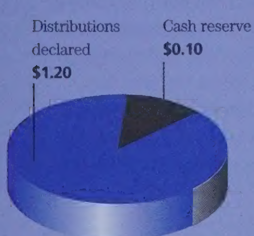
(1) Since the Fund commenced operations on March 28, 2002, no earnings or cash flow information has been presented for the period prior to this date.
(2) Gives effect to unit options approved by Unitholders in April 2003.

SALES BY MARKET SEGMENT
(% of total sales)



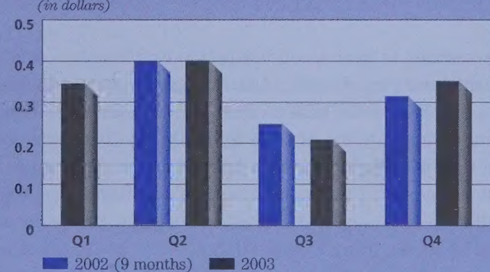
AFT's End-user customers total approximately 1030 pulp and paper mills, a net addition of 30 mills in 2003.

DISTRIBUTIONS DECLARED PER UNIT
(in dollars)



In 2003, the Fund added $0.10 per unit to its cash reserve bringing it to $0.16 per unit since the Initial Public Offering.

DISTRIBUTABLE CASH PER UNIT
(in dollars)



During 2003, the Fund generated a total of $17,040,000, or $1.30 per unit, in distributable cash.

A GROWING PRESENCE

In 2003, AFT reinforced its competitive position through initiatives to expand both its product offering and its geographic presence, while consolidating its long-term financial position.

- AFT purchased the remaining 65% interest in Poong Nam (AFT) Ltd., owned by its Korean partner. With this acquisition, Poong Nam became a wholly owned subsidiary of AFT.
- AFT enlarged its line of screening products, which included the introduction of a new foil rotor.
- AFT signed an exclusive worldwide licensing agreement with Norwalk Industrial Components, LLC to commercialize its Finebar® pulp refining technology.
- Prior to year-end, AFT completed a private debt placement of $45 million. This long-term debt bears interest at a fixed rate of 6.7% for a five-year period during which no principal repayments are required. The net proceeds were used primarily to reimburse the existing long-term debt.
- In January 2004, AFT signed a Letter of Intent to acquire the assets of Optimum Filtration. Optimum designs and manufactures screw presses and components that complement AFT's existing product line.

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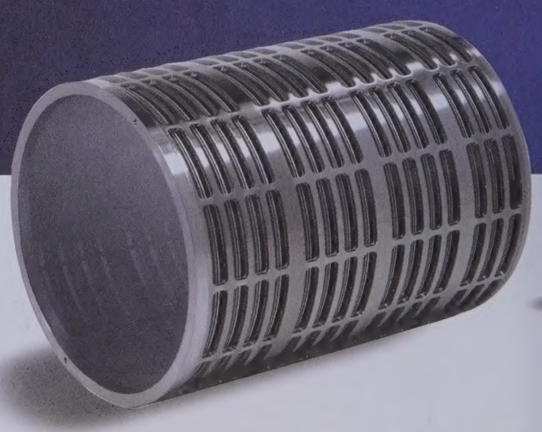

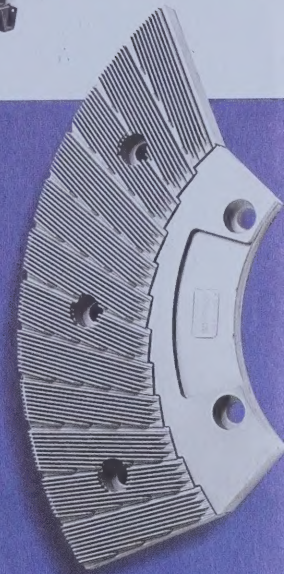

LENNOXVILLE PLANT (CANADA)
Number of employees: 175
Surface area: 130,000 sq.ft.
Market: Americas
Products: Full range of screening components, screen rotors and other related plates and products.

VARKAUS PLANT (FINLAND)
Number of employees: 165
Surface area: 91,000 sq.ft.
Market: Europe
Products: Screen cylinders and other related plates and products.

INCHEON PLANT (SOUTH KOREA)
Number of employees: 55
Surface area: 39,000 sq.ft.
Market: Asia
Products: Screen cylinders, filtration media, doctor blades and other related plates and products.

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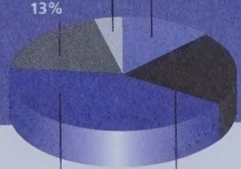
Europe and Asia.

RE PRODUCTS
OGRAPHIC
MARKETS

SALES BY GEOGRAPHIC REGION
(% of total sales)



Since 1999, sales to Asia have grown from 4% to 19% of the total, demonstrating AFT's growing presence in this market.

AFT offers a broad range of products, including perforated, drilled, slotted and wedgewire screen cylinders, rotors, non-cylindrical products and screw press components, as well as the recently licensed Finebar® refining technology.

A GROWING PRESENCE

The year 2003 was a very busy and satisfying year for AFT. Despite challenging times for pulp and paper markets worldwide, our key performance indicators were up and we maintained monthly cash distributions to Unitholders. In addition, we launched new products, strengthened our Asian presence and refinanced our long-term debt, setting a strong stage for future growth.

FINANCIAL RESULTS During the year ended December 31, 2003, the Fund recorded sales of $78.0 million, which provided earnings before interest, income taxes, depreciation and amortization (EBITDA) of $21.5 million and distributable cash of $17.0 million ($1.30 per unit). This compared with sales, EBITDA and distributable cash of $54.5 million, $15.4 million, and $12.7 million ($0.97 per unit), respectively, for the nine months ended December 31, 2002.

During 2003, the Fund declared and paid distributions of $15.7 million ($1.20 per unit), in line with its policy to pay equal monthly cash distributions of $0.10 per unit. We remain confident that revenue and cash flow stability will enable us to maintain this payout level in 2004.

CHANGING MARKETS Despite challenging times for pulp and paper markets worldwide, the long-term outlook for paper products remains favorable. The demand for paper products generally follows trends in overall economic growth.

According to Resource Information Systems, Inc., worldwide paper and paperboard output has grown at a compound annual rate of 3.1% from 1986 to 2002 and is expected to continue increasing at a rate of 3.0% from 2002 to 2018. However, there is a significant shift towards Asia, where production has increased at a pace of 2.7 times the Americas and Europe combined, from 1986 to 2002, and is expected to continue increasing at a pace of 1.6 times, from 2002 to 2018.

The Americas, which used to account for 44% of the global output in 1986, now represents 35% and this is expected to further decrease to 29% by 2018. For the same period, output in Asia has grown from 21% to 32% and is expected to further increase to 37% by 2018. Europe remains stable, representing approximately one-third of the global production.

As a key supplier to the pulp and paper industry – AFT has approximately 1,000 customers among the world's 4,000 largest producers – these industry trends have a direct effect on our operations. In response, we have taken several steps during the year to align our business with the evolving needs and expectations of our customers.

ENHANCED GEOGRAPHIC COVERAGE We are actively capitalizing on opportunities in Asia, today's fastest growing paper market. In April, we purchased the remaining 65% interest in Poong Nam Screen (AFT) Ltd. from our Korean partner, making us sole owners of the Poong Nam facility. We are pleased to say that this facility is now fully integrated within our global sales and manufacturing infrastructure and that it has become the center of our Asian operations. During the past few years, our sales in Asia have gone from 4% of revenues in 1999 to 19% in 2003. This key acquisition positions us to continue that pattern.

ENHANCED PRODUCT OFFERING Competition in today's environment is fierce, with paper producers focused on reducing costs and boosting productivity. In 2003, we took initiatives, both organic and strategic, to expand the range of performance-enhancing screening solutions that we offer our customers.

Across the organization, our efforts are focused on being a low-cost producer. Our cost reduction initiatives are centered on designing the best product for the application – as well as for manufacturing. This means eliminating all non-value-added costs, allowing us to become more competitive, while maintaining the superior quality of our products and our margins.

We also continue to develop innovative screening products that are both technically and economically superior, helping our customers achieve greater mill productivity. An example is our new foil rotor, the AFT EP Rotor™ that we introduced in early 2003. This product is designed for a wide range of screening applications, enabling AFT to offer complete screening solutions for any application and any screen type.

In July, we signed a worldwide exclusive licensing agreement with Norwalk Industrial Components to commercialize its Finebar® pulp refining technology. This product provides a natural extension to the traditional pulp screening solutions that AFT offers its customers. Finebar® sales are currently about $2.4 million a year, but are expected to grow substantially, in an estimated $150 million to $200 million annual market.

In January 2004, AFT signed a Letter of Intent to acquire the assets of Optimum Filtration, which designs and manufactures screw presses and components used to thicken pulp. Again, the Optimum technology provides a strong synergy with AFT's current technical wear parts portfolio, and has the potential to provide productivity and cost-savings benefits to the majority of AFT's customers. We expect to finalize this transaction in the first quarter of 2004.

ENHANCED CAPITAL RESOURCES In December 2003, the Fund completed a $45 million private debt placement with Canadian institutional investors. The notes issued have a five-year term and bear a 6.7% fixed interest rate, with no repayment of principal until maturity. The bulk of the proceeds has been used to repay $39 million of outstanding long-term debt and to secure long-term financing for the Poong Nam share purchase and Finebar® license. The remainder was used to provide for productivity improvement projects and further geographic expansion initiatives in Asia, when appropriate.

THANK YOU The year 2003 was satisfying for AFT, marked by a growing presence in the Asian market, a growing line of technical wear products and a financing that puts on a solid footing to address the future. We are proud of our accomplishments, and hope that they herald the first in a series of long-term successes.

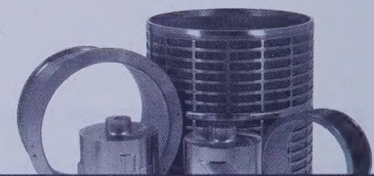
We would like to give much well deserved credit where it is due. We thank our customers, suppliers and fellow Board members for their contribution to a successful year. We reserve our deepest gratitude for our employees, who are the mainstay of our business.

Roch Leblanc
President and Chief Executive Officer
February 23, 2004

Paul B. Spafford
Chairman of the Board

As an organization, we are focused on being a low-cost producer. Our cost reduction initiatives are centred on designing the best product for the application – as well as for manufacturing. This means eliminating all non-value-added costs, allowing us to become more competitive, while maintaining the superior quality of our products and our profitability.

A STRONG FOUNDATION FOR GROWTH



In 2003, AFT reinforced its competitive position through initiatives to expand both its product offering and its geographic presence, while consolidating its long-term financial position.

This portion of the Annual Report provides a discussion and analysis of our financial condition and results of operations so as to enable a reader to assess material changes in financial condition and results of operations for the year ended December 31, 2003, compared to those of the nine-month period ended December 31, 2002. The Consolidated Financial Statements, prepared in accordance with Canadian generally accepted accounting principles, are on pages 12 to 29.

OVERVIEW Advanced Fiber Technologies Income Fund (the "Fund" or "AFT") is an unincorporated open-ended trust established under the Laws of the Province of Quebec. The Fund's income is derived from its fiber screening business, which it purchased on March 28, 2002 from CAE Inc. This business was expanded in 2003 further to the acquisition of the remaining 65% interest in Poong Nam (AFT) Ltd. ("Poong Nam") and an exclusive worldwide license to commercialize the complementary product line of Finebar® refining components.

The Fund's policy is to distribute $0.10 per unit per month to its Unitholders.

VISION AFT uses its advanced screening and refining component technology together with its in-depth knowledge of pulp screening and refining processes to provide customized screening and refining solutions to pulp and paper producers. Pulp screens are used to remove contaminants from pulp, a process that is critical to ensuring the quality of pulp and resulting paper products. Pulp refining is complementary to the pulp screening process and is used mainly to enhance pulp properties such as fiber length, flexibility and surface qualities. In addition to enhancing overall paper quality, AFT's products add value to pulp and paper producers by reducing fiber loss and energy consumption, as well as increasing component life and capacity.

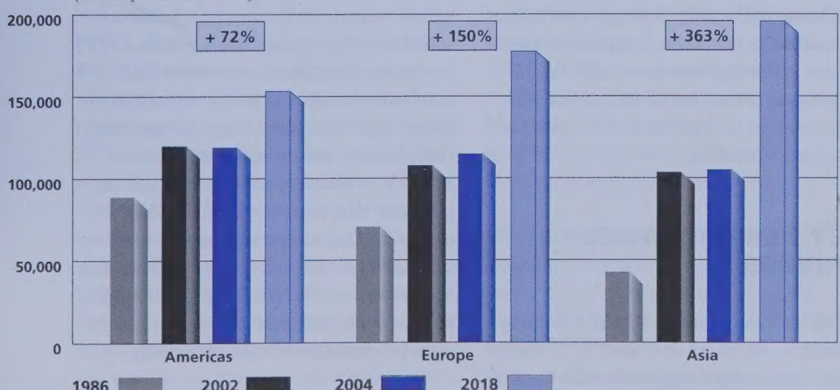
CORE BUSINESS AFT's focus is on the manufacture and sale of maintenance and replacement products used by pulp and paper producers in the screening and refining process. Maintenance and repair sales of consumable items, which generate more stable operating cash flows, are less sensitive to the capital spending cycles that characterize the pulp and paper industry. Instead, they are driven by global paper consumption that is increasing at a rate of approximately 3% per year. Geographically diversified and present in all major pulp and paper markets, AFT has the capability to respond to global demand. Consequently, as demonstrated by the graph below, shifts in levels of demand from one geographic region to another have little impact on the Fund's total sales. AFT's client base comprises Original Equipment Manufacturers (OEMs) and End-users. While OEM customers continue to be of strategic importance to the Company, the future growth of the Company will be driven by direct sales to pulp and paper mills, or End-users.

STRATEGY AFT's strategy is built on four cornerstones: penetration of the End-user market; acquisition of complementary product lines; operational excellence; and financial discipline.

To increase its share of the End-user market, AFT is investing in its worldwide distribution network. This network is composed of more than 60 sales representatives and agents, three Sales Directors (Americas, Europe and Asia), one Marketing Director and one Vice-President, Sales and Marketing. AFT is also investing in its application support and product innovation capability. The technology group is composed of 11 engineers and technicians, one Director, Innovation and one Vice-President, Technology.

WORLDWIDE PAPER PRODUCTION

(annual production in tons)



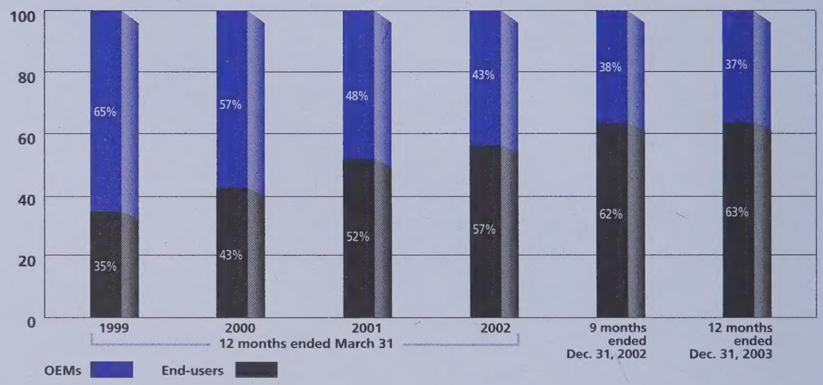
Paper production in Asia is expected to grow at a significantly higher rate than in other world markets. AFT is well positioned to benefit from this opportunity through its manufacturing facility in Incheon, South Korea together with its growing line of maintenance and replacement products for pulp and paper mills.
Source: Resource Informations Systems, Inc.

The second cornerstone of AFT's strategy is to leverage its worldwide distribution network by offering complementary product lines. As described in note 3 to the Consolidated Financial Statements, in July 2003, AFT signed an exclusive worldwide licensing agreement to commercialize a leading-edge pulp refining technology called Finebar®. The cost of the licence was $2,298,000. In addition, AFT has an option to purchase the Finebar® refiner plate business of Norwalk Industrial Components, LLC located in Manchester, Connecticut. This option is available until July 2006 and can be exercised upon the achievement of certain levels of sales.

As described in note 21 to the Consolidated Financial Statements, in January 2004, AFT signed a Letter of Intent to acquire the assets of Optimum Filtration, located in Montreal, Quebec. Optimum is involved in the design and manufacture of screw presses and components, as well as providing process optimization and other services to the pulp and paper industry. The transaction value will be disclosed to Unitholders on closing, which is expected to be before the end of the first quarter of 2004.

The final cornerstones of AFT's strategy are operational excellence and financial discipline. AFT will continue to be responsive to customer needs so as to offer quality products at the right price with on-time delivery. AFT will also continue to rigourously manage those elements within its control, such as fixed and variable operating costs, fixed asset expenses and working capital. One step taken in 2003 to improve operational excellence was the acquisition of the remaining 65% ownership of Poong Nam (AFT) Ltd. With Poong Nam now a wholly owned subsidiary, all manufacturing methods in AFT's three facilities are harmonized, and the sales, technical and administrative functions are integrated within the same global structure. The former AFT Asian sales office in Singapore has been consolidated with the Poong Nam sales office in South Korea.

GROWING SALES TO THE END-USER MARKET
(% of sales)



OPERATIONS AFT employs 395 people in three wholly owned manufacturing facilities located in North America, Europe and Asia, the three major pulp and paper markets of the world.

The operations of AFT, which marked its 100th anniversary in March 2003, have remained at the forefront of pulp screening technology through continuous investment in the research and development of new screening solutions. AFT has 61 patents consisting of 18 technologies registered in 15 countries. AFT also has 23 patents pending.

KEY PERFORMANCE DRIVERS

AFT's success is driven by the following factors:

- its value-added approach with End-user customers
- leveraging its distribution network
- significant investment in research and development and applications support
- a well-diversified customer base in all its major markets
- the sound management of resources.

VALUE-ADDED APPROACH WITH END-USER CUSTOMERS AFT's strategy is to focus on the more stable maintenance and replacement business associated with End-user customers. AFT's End-user strategy hinges on direct relationships with its customers. Instrumental to this relationship is the Company's unique SimAudit™ software, which represents the next generation in screen system optimization. SimAudit™ integrates simulation, process audits, mechanical audits, sizing and system design functions. It can quickly size and troubleshoot screen systems, evaluate "what if" scenarios, and achieve the full potential of the screen system. This technology optimizes mill production, increases mill capacity, reduces fiber loss and lowers energy consumption, enabling customers to manufacture higher quality pulp products more cost-effectively.

LEVERAGING ITS DISTRIBUTION NETWORK AFT's main product line consists of screen cylinders for use in pulp screening processes. AFT estimates that the global annual market for screen cylinders is between $150 million to $200 million. To achieve approximately a 30% global market share, AFT has put in place an extensive network of sales representatives, sales agents and application support engineers. To leverage this network, AFT evaluates all possibilities to add complementary product lines that are used by its customers.

SIGNIFICANT INVESTMENT IN RESEARCH AND DEVELOPMENT AND TECHNICAL SUPPORT AFT believes that its key competitive advantage is the technical knowledge it has developed of pulp screening and refining processes, which allows AFT to develop optimal solutions for its customers. AFT invested approximately 2.7% of its sales in research and development and technical support in 2003 compared with 2.2% in 2002. In addition to customer applications support, the technology group is responsible for product development and management of the intellectual property of AFT.

WELL DIVERSIFIED CUSTOMER BASE To minimize its dependence on the economic activity in one geographic region and a concentrated customer base, AFT has developed a global presence. The acquisition of the remaining 65% of Poong Nam in April 2003 was a further step toward increased customer diversification in Asia. The cost to acquire the remaining 65% interest was $4,599,000, net of cash and cash equivalents acquired, as described in note 3 to the Consolidated Financial Statements. Of the estimated 4000 pulp and paper mills around the world, AFT's customer list totals approximately 25% of them. In 2003, the addition of new mills to AFT's customer list, net of deletions, amounted to 30.

SOUND MANAGEMENT OF RESOURCES In order to achieve its financial objectives, AFT has implemented both management and financial controls to ensure resources are managed effectively and with accountability.

KEY PERFORMANCE INDICATORS

The principal indicators used to measure the Fund's performance are:

- earnings before interest, income taxes, depreciation and amortization ("EBITDA")
- distributable cash.

EBITDA EBITDA is not a recognized measure under Canadian generally accepted accounting principles ("GAAP"). However, management believes that EBITDA is a useful measure to provide investors with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. EBITDA should not be construed as an alternative to net earnings determined in accordance with GAAP or to cash flows from operating, investing and financing activities. The Fund's method of calculating EBITDA may differ from other issuers and, accordingly, EBITDA may not be comparable to measures used by other issuers. Management believes that the cash generation performance of the operations is better monitored by EBITDA.

DISTRIBUTABLE CASH
Distributable cash is not a defined term under GAAP. It is determined by the Fund as earnings before income taxes adjusted for non-cash expenses, including depreciation and amortization, and reduced by maintenance capital expenditures and current income taxes. Management believes that net cash generated by the Fund prior to distribution is an important measure for investors to monitor. Some consider this measure to be more important than actual cash distributions. Any distribution in excess of the distributable cash means a depletion of the cash reserve, while any distribution below the distributable cash means that reserves are being built for future investments, to serve as a buffer for operations over economic cycles or to reimburse outstanding debt.

CAPABILITIES TO ACHIEVE DESIRED RESULTS

CAPITAL RESOURCES At December 31, 2003, AFT had $5,214,000 of cash on hand compared with $3,454,000 at year-end 2002. In December 2003, AFT renegotiated its revolving credit facility of $10 million for a new term of three years. This revolving facility, which was also in place at year-end 2002, was not utilized at either year-end.

In December 2003, AFT also completed a private debt placement of $45 million of 6.7% Senior Secured Notes which mature in December 2008, as described in note 9 to the Consolidated Financial Statements. There is no amortization of the principal on these five-year notes until maturity, which were issued by AFT Trust.

The net proceeds from the private debt placement were used to reimburse the Fund's original $39 million term loan without penalty, as well as providing AFT with approximately $2.5 million for productivity improvement projects and further potential geographical expansion initiatives in Asia. These projects, which are not part of the ongoing maintenance capital expenditures of the Fund, are meant primarily to offset the negative

impact of the Canadian dollar appreciation against the U.S. dollar. The remainder of the net proceeds was used for the partial long-term financing of the additional ownership of Poong Nam ($4.6 million) and the acquisition of the worldwide exclusive Finebar® license ($2.3 million).

HUMAN RESOURCES At the end of 2003, AFT employed 395 people. AFT has been successful in attracting and retaining skilled human resources. Management is of the opinion that a competitive compensation package is necessary to attract and retain the best employees in its sector. One initiative in 2003 was the implementation of an Employee Unit Purchase Plan ("EUPP") to enable employees of the Fund and its participating subsidiaries to acquire AFT units through regular payroll deductions plus employer contributions.

The Plan allows employees to contribute up to 10% of their annual base salary. The Fund and its participating subsidiaries match the first $500 employee contribution and contribute $1 for every $3 on additional employee contributions, to a maximum of 2% of the employee's base salary. Matching contributions vest at the beginning of the third year following the year during which the employee contributions were made, provided employment has been continuous during that period. Units of the Fund are purchased by the EUPP trustee on behalf of the participants on the open market, through the facilities of the Toronto Stock Exchange. In 2003, the Fund recorded compensation expense in the amount of $109,000 in respect of employer contributions under the Plan.

MANUFACTURING CAPACITY
AFT's three manufacturing facilities are operating at approximately 70% of capacity. In addition, during 2003, AFT invested $1,226,000 in maintenance capital expenditures to maintain its manufacturing and information processing equipment.

OPERATING RESULTS

For the twelve months ended December 31, 2003, the Company's sales were $78,045,000. For the nine-month period ended December 31, 2002, sales were $54,472,000 compared with $58,642,000 in the corresponding period of 2003, an increase of 7.7% year over year. Sales to End-users continued to increase, accounting for 63% of revenues in 2003 compared with 62% last year. In 1999, sales to End-users represented only 35% of revenues.

The Company serves customers in all key markets worldwide. As calculated from information included in note 16 to the Consolidated Financial Statements and as shown below, for the twelve months ended December 31, 2003, European sales accounted for 43%, the United States – 21%, Asia – 19%, Canada – 13% and other countries around the world for the remaining 4%. For the nine-month period ended December 31, 2002, the figures were 46%, 26%, 13%, 11% and 4%, respectively. The increased proportion of sales to Asia in 2003 is a direct result of the acquisition of the remaining ownership of Poong Nam and a strong indication of the Fund's effective diversification strategy.

For the twelve months ended December 31, 2003, net earnings were $7,768,000 compared with $8,259,000 for the nine-month period ended December 31, 2002.

For the twelve months ended December 31, 2003, EBITDA was $21,482,000 or 27.5% of sales, compared with $15,435,000 or 28.3% for the nine-month period ended December 31, 2002. The decrease in EBITDA margin is attributed to the following: Finebar® sales are currently made on a cost recovery basis until the option to purchase the Finebar® business is exercised; the lower margins of the Poong Nam product mix now representing a greater proportion of total sales; and pricing pressures in the pulp and paper industry. On an absolute dollar basis, EBITDA increased 3.8% to $16,023,000 for the nine-month period ended December 31, 2003 versus the same period in 2002.

Interest and financing costs increased to $2,872,000 for the twelve months ended December 31, 2003, from $1,708,000 for the nine-month period ended December 31, 2002. The average interest rate on the borrowings in 2003 increased by approximately 1%, while total borrowings increased slightly due to financing costs associated with the acquisition of the remaining 65% interest in Poong Nam and the Finebar® license. Interest expenses will further increase in 2004 due to the issue of $45,000,000 of 6.7% Senior Secured Notes in December 2003 (used in part to repay

CONTRACTUAL OBLIGATIONS

December 31, 2003 (thousands of dollars)	Total $	1 year $	1-3 years $	4-5 years $
Long-term obligations	46,234	145	424	45,665
Operating leases	569	345	216	8
Total	46,803	490	640	45,673

the original $39,000,000 term loan) and due to a new loan in the amount of $1,519,000 (1,400 million won) put in place for Poong Nam. The increase in amortization of deferred financing fees is principally due to the write-off of $411,000 related to the original term loan.

Current income taxes payable relate to Poong Nam's operations in South Korea. They represented $37,000 for the nine-month period in 2002 when Poong Nam was a 35%-owned affiliate. Current income taxes payable increased to $344,000 in 2003 since Poong Nam is now a 100%-owned subsidiary, which is also the expected level for 2004.

Capital expenditures in 2003 amounted to $1,226,000 compared with $952,000 for the nine-month period of 2002, primarily for equipment replacement and upgrades.

Distributable cash was $17,040,000 in 2003, or $1.30 per unit. Distributable cash for the nine-month period ended December 31, 2002 was $12,738,000, or $0.97 per unit. Monthly distributions to Unitholders were $0.10 per unit in both periods, for a payout ratio that decreased to 92.2% in 2003 from 94.3% in 2002. The cash reserve for the 21-month period ended December 31, 2003 stood at $0.16 per unit.

There were 13,083,333 units of AFT issued to the public in 2002. In 2003, 13,083 new units in the amount of $130,830 were issued further to the exercise of unit options by an executive. At year-end 2003, there were 13,096,416 units outstanding. There were a total of 641,083 units authorized for issuance under the Employee Unit Option Plan. At year-end, 542,960 options were outstanding. There is no difference between the basic and diluted earnings per unit for 2003 and 2002, as detailed in the Consolidated Financial Statements.

SELECTED FINANCIAL INFORMATION

(thousands of dollars, except per-unit amounts)

2003	Q1 $	Q2 $	Q3 $	Q4 $	Year 2003 $
SALES	**19,403**	**20,668**	**16,325**	**21,649**	**78,045**
NET EARNINGS	**2,108**	**2,798**	**744**	**2,118**	**7,768**
EBITDA	**5,459**	**6,385**	**3,981**	**5,657**	**21,482**
Less					
Interest expense, net	**673**	**664**	**677**	**858**	**2,872**
Income taxes current	**51**	**126**	**34**	**133**	**344**
Maintenance capital expenditures	**280**	**328**	**497**	**121**	**1,226**
Distributable cash	**4,455**	**5,267**	**2,773**	**4,545**	**17,040**
Distributable cash per unit	**0.34**	**0.40**	**0.21**	**0.35**	**1.30**
Distributions declared per unit	**0.30**	**0.30**	**0.30**	**0.30**	**1.20**
LONG-TERM OBLIGATIONS	**39,529**	**40,012**	**40,052**	**46,089**	
TOTAL ASSETS	**167,002**	**170,397**	**169,395**	**174,516**	

2002	Q2 $	Q3 $	Q4 $	9 months ended December 31, 2002 $
SALES	19,193	17,110	18,169	54,472
NET EARNINGS	3,183	1,860	3,216	8,259
EBITDA	6,045	4,215	5,175	15,435
Less				
Interest expense, net	559	587	562	1,708
Income taxes current	67	(32)	2	37
Maintenance capital expenditures	183	338	431	952
Distributable cash	5,236	3,322	4,180	12,738
Distributable cash per unit	0.40	0.25	0.32	0.97
Distributions declared per unit	0.31	0.30	0.30	0.91
LONG-TERM OBLIGATIONS	39,520	39,535	39,614	
TOTAL ASSETS	175,337	171,864	170,916	

Distributions declared for the twelve months ended December 31, 2003 were $15,705,000 or $1.20 per unit. For the nine-month period ended December 31, 2002, distributions were $11,946,000, or $0.913 per unit. The Fund's policy is to distribute $0.10 per unit on a monthly basis. The first distribution in 2002 covered the period from March 28th to April 30th and was $0.113. On an annualized basis, the 2002 distributions were equivalent to $1.20 per unit.

Total distributions of $15,705,000 in 2003 exceeded net earnings for the year by $7,937,000, principally attributable to the amortization of intangible assets and the depreciation of fixed assets. With a level of technology investment of approximately 2.7% of total 2003 sales, together with the resources allocated to increasing customer service and the global sales network, AFT is confident that the value of those intangibles is being maintained. As for the depreciation of fixed assets, considering the available manufacturing capacity, annual depreciation expense can be greater than the annual maintenance capital expenditures with no negative impact. Therefore, Management believes that the distribution in excess of the net earnings is not a depletion of AFT's value.

The structure of the Fund allows income of the Fund to be taxed directly into the hands of the Unitholders. Since earnings from foreign subsidiaries are taxable in the foreign country, inter-company loans to wholly owned subsidiaries were put in place to leverage interest deductions in those countries. In addition, goodwill is depreciated for income tax purposes in Finland while being subject to impairment testing for accounting purposes. This should allow taxes to be maintained at the same level as 2003 in Poong Nam while, in Finland, it should be deferred for at least another five years under existing tax regulations and the current financial structure.

The Fund's cash position was strong at December 31, 2003, with a working capital ratio of 1.9 and cash on hand of $5,214,000. This compares with a working capital ratio of 2.4 and cash on hand of $3,454,000 at year-end 2002. There was a $10 million revolving credit facility that was not utilized at both year-ends.

RISKS AND UNCERTAINTIES

COMPETITIVE PRESSURES AND CHANGES IN MARKET ACTIVITY

Certain of AFT's competitors have economic resources greater than those of AFT and are well established as suppliers to the markets that AFT serves. There can be no assurance that AFT will be able to compete successfully against its current or future competitors or that such competition will not have a material adverse effect on AFT's business, financial condition and results of operations. AFT's customers are concentrated in the pulp and paper industry, which is going through a difficult economic period. This may cause some customers to defer the replacement of their worn screening and refining components, effectively reducing the market for AFT's products.

DEPENDENCE ON OEMS AFT is dependent upon certain OEM customers. There can be no assurance that AFT will maintain its relationship with any particular OEM or continue to provide screening products to any particular OEM at current levels. In 2003, Andritz AG acquired Fiedler, an independent manufacturer of screening components in direct competition with AFT. If Andritz AG were to cease being a customer of AFT, approximately $7.5 million of annual sales would need to be replaced. Recently, AFT successfully managed similar situations and has emerged as a stronger supplier in the End-user market.

INTERNATIONAL OPERATIONS

Foreign operations are subject to certain risks that can materially affect the sales, profits, cash flows and financial position of AFT. They include exchange rate fluctuations, inflation, exchange controls and political risk.

ENVIRONMENTAL MATTERS

A description of contingencies related to environmental matters is included in note 19 of the Consolidated Financial Statements.

FOREIGN EXCHANGE EXPOSURE

Sales of products to customers outside Canada represented 87% of sales in 2003. Because the prices for such products are quoted in foreign currencies, any increase in the value of the Canadian dollar relative to such currencies, in particular the U.S. dollar, euro and Korean won, reduces the amount of the Canadian dollar revenues reported by AFT in its Consolidated Financial Statements. There are natural hedges against such currency fluctuations from purchases in euros and U.S. dollars as well as manufacturing costs in euros and Korean wons.
An appreciation of $0.01 in the Canadian dollar relative to the U.S. dollar has a negative impact of approximately $120,000 on AFT profitability. For the same change in the Canadian dollar relative to the euro and the Korean won, the impact is approximately $60,000 and $20,000, respectively.

OFF BALANCE SHEET ARRANGEMENTS AFT has entered into forward exchange contracts to hedge approximately 50% to 80% of its forecasted cash flow in foreign currencies for the next 36 months, up from 18 months in the past. As at December 31, 2003, the Fund had a total of US$13,600,000 and €14,850,000 in forward contracts maturing within the next 36 months. The exchange rates on these contracts

ranged from C$1.3225–1.6168/US$1.00 and from C$1.5629–1.6534/€1.00. The average exchange rate of the U.S. dollar contracts is C$1.41/US$1.00. The appreciation of the Canadian dollar will have a partial impact in 2004 and a full impact in 2005. As at December 31, 2003, the amount of unrealized gain on these forward exchange contracts was approximately C$1,246,000.(unrealized loss of approximately C$526,000 in 2002).

CRITICAL ACCOUNTING POLICIES AND CHANGES IN GAAP

The accounting policies used by the Fund during 2003 are the same as those used in 2002. A list of significant accounting policies is included in note 2 to the Consolidated Financial Statements.

The new Accounting Guideline and recommendations due to be implemented in the 2004 fiscal year are as follows:

Hedging relationships
The Canadian Institute of Chartered Accountants ("CICA") has issued Accounting Guideline AcG-13 "Hedging Relationships" that presents the views of the Accounting Standards Board on the identification, designation, documentation and effectiveness of hedging relationships, for the purpose of applying hedge accounting, as well as on the discontinuance of hedge accounting. The Guideline should be applied to hedging relationships in effect in fiscal years beginning on or after July 1, 2003. In management's opinion, the implementation of this Guideline relating to foreign exchange contracts would not have a significant impact on the financial statements of the Fund.

Impairment of long-lived assets
In 2003, the CICA issued new recommendations regarding the impairment of long-lived assets applicable prospectively for the financial years beginning on or after April 1, 2003. In accordance with these new recommendations, an impairment must be recorded when the carrying amount of a long-lived asset is no longer recoverable and exceeds its fair market value. A long-lived asset is defined as a capital asset, or intangible asset with a finite useful life, a deferred pre-operating cost or a long-term prepaid asset. Management does not anticipate that this new standard will have a material effect on its consolidated results for 2004.

OUTLOOK

Fiscal 2003 was a very busy and satisfying year for the Fund. Despite challenging times for pulp and paper markets worldwide, AFT's key performance indicators were up, allowing us to maintain monthly cash distributions to Unitholders. In addition, we launched new products, enhanced our Asian presence, signed an exclusive license to commercialize the Finebar® refining technology and refinanced our long-term debt, setting a solid stage for future growth.

In January 2004, the Fund announced that it had signed a Letter of Intent to acquire the assets of Optimum Filtration, which designs and manufactures screw presses and components used to thicken pulp. The Optimum technology provides strong synergies with AFT's current technical wear parts portfolio, and has the potential to provide productivity and cost-savings benefits to the majority of AFT's customers. This transaction is expected to close in the first quarter of 2004.

On a global level, several signs indicate that a general upturn of the pulp and paper industry is imminent. Low interest rates and the decline in the U.S. dollar are stimulating economic growth. This would indicate a better year for the industry in 2004, driven by higher activity in the United States as well as continuing healthy demand from Asia. Except for Europe, where the value of the euro is putting downward pressure on most prices, we are seeing rising prices on recovered paper, softwood pulp, containerboard and even newsprint. The positive impact of these improved market conditions will build throughout the year. A slow start is expected in the first quarter, with the full benefit of the expected upturn realized in the second half of 2004.

Despite this more favorable environment, we continue to remain prudent with respect to the elements within our control, such as maintaining financial discipline and expense control while taking a global approach to the pulp screening and refining solutions that we offer our customers. Looking to the first half of 2004, we expect these factors to contribute to continued stability in our earnings and cash flows, allowing us to maintain the track record of even monthly distributions that we have established with our Unitholders to date.

Forward-looking information
The statements contained in this report that are forward-looking are based on current expectations and are subject to a number of uncertainties and risks, and actual results may differ materially. These uncertainties and risks include, but are not limited to, the dependence on certain key suppliers, competitive pressures and changes in market activity, risks associated with international operations and foreign exchange, legal proceedings, environmental, health and safety and other regulatory requirements.

The financial statements of the Fund and the other financial information included in this annual report are the responsibility of management and have been examined and approved by its Trustees. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts that are based on management's best estimates using careful judgement. The selection of accounting principles and methods is management's responsibility.

The Fund maintains internal control systems designed to ensure that financial information is relevant and accurate and that assets are safeguarded. Management recognizes its responsibility for conducting the Fund's affairs to comply with the requirements of applicable laws and established financial standards of conduct in its activities.

The Trustees supervise the financial statements and other financial information through its Audit Committee, which consists solely of outside unrelated trustees.

This committee's role is to examine the financial statements and recommend that the Trustees approve them, to examine the internal control and information protection systems and all other matters relating to the Fund's accounting and finances. In order to do so, the Audit Committee meets periodically with the external auditors, either with or without the Fund's management, to review their audit plan and discuss the results of their examinations.

The financial statements have been audited by Samson Bélair/Deloitte & Touche, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Unitholders. The external auditors have full and free access to the Audit Committee.

Roch Leblanc
President and Chief Executive Officer

Normand Potvin
Chief Financial Officer and
Secretary

Lennoxville, Quebec
February 6, 2004

AUDITORS' REPORT

To the Unitholders of
Advanced Fiber Technologies (AFT) Income Fund

We have audited the consolidated balance sheets of Advanced Fiber Technologies (AFT) Income Fund as at December 31, 2003 and 2002 and the consolidated statements of earnings, deficit and cash flows for the periods then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair / Deloitte & Touche s.e.n.c.r.l.

Sherbrooke, Quebec
Chartered Accountants

February 6, 2004

(in thousands of dollars except units and per-unit amounts)	For the period from January 1, 2003 to December 31, 2003 $	For the period from March 28, 2002 to December 31, 2002 $
Sales	**78,045**	54,472
Cost of sales, selling and administrative expenses (note 14)	**56,563**	39,037
Earnings before the undernoted	**21,482**	15,435
Interest expense – long-term obligations	**2,323**	1,583
Interest expense – other	**549**	125
Amortization of deferred financing fees	**740**	246
Depreciation of property, plant and equipment	**4,447**	2,871
Amortization of intangible assets	**5,041**	3,481
Earnings before income taxes	**8,382**	7,129
Provision for income taxes (note 10)		
Current	**344**	37
Future	**270**	(1,167)
	614	(1,130)
Net earnings	**7,768**	8,259
Basic weighted average number of units (in thousands of units)	**13,088**	13,083
Diluted weighted average number of units (in thousands of units)	**13,639**	13,393
Basic earnings per unit	**0.59**	0.63
Diluted earnings per unit	**0.59**	0.63

CONSOLIDATED STATEMENTS OF DEFICIT

(in thousands of dollars)	For the period from January 1, 2003 to December 31, 2003 $	For the period from March 28, 2002 to December 31, 2002 $
Balance, beginning of period	**(3,687)**	–
Net earnings	**7,768**	8,259
Distributions declared	**(15,705)**	(11,946)
Balance, end of period	**(11,624)**	(3,687)

(in thousands of dollars)	As at December 31, 2003 $	As at December 31, 2002 $
ASSETS		
Current assets		
Cash and cash equivalents	**5,214**	3,454
Accounts receivable	**14,895**	13,365
Inventories (note 4)	**10,957**	9,307
Prepaid expenses	**865**	968
	31,931	27,094
Property, plant and equipment (note 5)	**30,968**	31,183
Deferred financing fees (note 6)	**1,150**	740
Intangible assets (note 7)	**46,485**	47,917
Goodwill	**63,982**	63,982
	174,516	170,916
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Bank loan (note 8)	**1,519**	173
Accounts payable and accrued liabilities	**13,611**	9,677
Cash distributions payable	**1,310**	1,308
Income taxes payable	**257**	37
Current portion of long-term obligations (note 9)	**145**	78
	16,842	11,273
Long-term obligations (note 9)	**46,089**	39,614
Future income taxes (note 10)	**1,358**	556
	64,289	51,443
Unitholders' equity (note 11)		
Units	**119,846**	119,715
Cumulative foreign currency translation adjustment (note 13)	**2,005**	3,445
Deficit	**(11,624)**	(3,687)
	110,227	119,473
	174,516	170,916

On behalf of the Trustees

Paul B. Spafford
Trustee

François R. Roy
Trustee

(in thousands of dollars)	For the period from January 1, 2003 to December 31, 2003 $	For the period from March 28, 2002 to December 31, 2002 $
OPERATING ACTIVITIES		
Net earnings	**7,768**	8,259
Items not affecting cash		
Depreciation of property, plant and equipment	**4,447**	2,871
Amortization of intangible assets and deferred financing fees	**5,781**	3,727
Future income taxes	**270**	(1,167)
Changes in non-cash operating working capital items (note 15)	**1,078**	415
	19,344	14,105
INVESTING ACTIVITIES		
Acquisition of the remaining 65% ownership of Poong Nam, net of cash and cash equivalents acquired (note 3)	**(4,599)**	–
Acquisition of Finebar license (note 3)	**(2,298)**	–
Additions to property, plant and equipment	**(1,226)**	(952)
Acquisition of the fiber screening business of CAE, net of cash and cash equivalents acquired (note 3)	**–**	(156,137)
	(8,123)	(157,089)
FINANCING ACTIVITIES		
Distribution to Unitholders	**(15,703)**	(10,638)
Issuance of trust units	**131**	130,833
Cost related to issuing units	**–**	(11,118)
Issuance of Senior Secured Notes (note 9)	**45,000**	–
Issuance (repayment) of term loan	**(39,000)**	39,000
Repayment of long-term obligations	**(85)**	(145)
Deferred financing fees	**(1,150)**	(986)
Change in bank loan	**1,346**	(508)
	(9,461)	146,438
Increase in cash and cash equivalents for the period	**1,760**	3,454
Cash and cash equivalents, beginning of period	**3,454**	–
Cash and cash equivalents, end of period	**5,214**	3,454

Supplementary information on cash flows (note 15)

For the periods ended December 31, 2003 and 2002
(All figures in tables expressed in thousands of dollars, unless otherwise noted)

1 STATUS AND NATURE OF BUSINESS

Advanced Fiber Technologies (AFT) Income Fund (the "Fund") is an unincorporated open-ended trust established by a trust agreement dated February 12, 2002, as amended and restated on March 19, 2002, under the Laws of the Province of Quebec. On March 28, 2002, the Fund completed an initial public offering of 13,083,333 units at a price of $10.00 per unit. The Fund was created to acquire, indirectly through wholly owned Advanced Fiber Technologies (AFT) Trust ("AFT") the fiber screening business of CAE Inc.("CAE"), consisting of a facility located in Lennoxville, Quebec and related operations, all of the issued and outstanding shares of CAE's wholly owned subsidiary, CAE Screenplate Oy, which operated a facility located in Varkaus, Finland and 35% of Poong Nam (AFT) Ltd., which operated a facility located in Incheon, South Korea. In 2003, the Fund acquired the 65% ownership of Poong Nam (AFT) Ltd. it did not own. In 2003, the Fund also entered the refining component business through the acquisition of an exclusive worldwide commercialization license of the Finebar® technology. Each Unitholder participates on a pro rata basis in any distribution from the Fund.

AFT provides customized screening and refining solutions to pulp and paper producers based on its advanced screening and refining component technology and its in-depth knowledge of pulp screening and refining processes. AFT designs, manufactures and distributes pulp screening and refining components for use in pulp and paper mills.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Basis of consolidation

These consolidated financial statements include the accounts of the Fund and its directly and indirectly wholly owned subsidiaries from their dates of acquisition. The principal wholly owned subsidiaries are: Advanced Fiber Technologies (AFT) Trust, Advanced Fiber Technologies (AFT) Inc., Advanced Fiber Technologies (AFT) Oy, Varkauden Metallikiinteistöt Oy, Poong Nam (AFT) Ltd. and Advanced Fiber Technologies (AFT) Ltd.

For the period from March 28, 2002 to April 15, 2003, these consolidated financial statements include 35% of the assets, liabilities, revenues and expenses of Poong Nam (AFT) Ltd., representing the Fund's indirectly owned joint control interest in this corporation, using the proportionate consolidation method.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the year. Actual results could differ from those estimates.

Foreign currency translation

Foreign operations

The Fund's foreign operations are determined to be of a self-sustaining nature. Accordingly, the accounts of the Fund's foreign operations are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the exchange rate in effect at the end of the year and revenues and expenses are translated at the average exchange rate for the year. Gains and losses on translation of these foreign operations into Canadian dollars are included in the foreign currency cumulative translation adjustment in the Unitholders' equity. Changes in the foreign currency translation adjustment result solely from the application of this translation method.

Foreign currency transactions

Transactions denominated in currencies other than the functional currency are translated into the functional currency using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the end of the year, and non-monetary assets and liabilities are translated at the exchange rates prevailing at the transaction dates. Revenues and expenses are translated at the exchange rates prevailing at the dates of the respective transactions. Translation gains and losses arising from translation are included in the Consolidated Statements of Earnings.

Financial instruments

Derivative financial instruments are utilized by the Fund in the management of its foreign currency. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Fund purchases foreign exchange forward contracts to hedge anticipated sales to customers in U.S. dollar and the related accounts receivable, when it is deemed appropriate.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated U.S. dollar denominated sales or euro denominated cash flows are recognized as an adjustment of the revenues when the sale is recorded or of the cash flow when the cash flow is recorded. For forward foreign exchange contracts used to hedge anticipated U.S. dollar denominated sales or euro denominated cash flows, the portion of the forward premium or discount on the contract relating to the period prior to consummation of the sale or the cash flow is also recognized as an adjustment of the revenues when the sale is recorded or to cash flows when the cash flow is recorded.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current, assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in earnings.

Gains and losses on foreign exchange

Gains and losses on foreign exchange fluctuations are recorded in the period in which the fluctuation occurred for all assets, liabilities and unhedged cash flows denominated in a foreign currency.

Revenue recognition

Revenue from product sales is recognized when the title and risk of loss have been transferred to the customer and collection of the resulting receivable is reasonably assured.

Income taxes

Income tax obligations related to the distributions of the Fund are the obligations of the Unitholders. Therefore, the provision for income taxes is calculated on the taxable income of the subsidiaries only.

Future income taxes

Future income taxes are calculated using the tax liability method. Temporary differences between the tax value of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are based on the prescribed tax rate expected to apply to the years in which the difference is expected to reverse.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts, as well as all highly liquid investments with original terms to maturity of three months or less.

Inventories

Inventories of work in progress and finished goods are valued at the lower of average production cost and net realizable value. Inventories of raw materials and supplies are valued at the lower of cost and replacement cost. The cost of raw materials and supplies is determined on the average cost basis. Cost of work in progress and finished goods includes material, labour and allocation of manufacturing overhead.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Machinery and equipment and furniture and fixtures	3 to 10 years

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development costs

Research costs are charged to earnings in the periods in which they are incurred. Development costs are also charged to earnings in the period incurred unless they meet the criteria for deferral.

Deferred financing fees

Deferred financing fees are amortized on a straight-line basis over the term of the related debt. Deferred financial fees related to the new Senior Secured Notes and the Amended Credit Facility are amortized over a five-year period for the Senior Secured Notes portion, and over a three-year period for the Amended Credit Facility.

Intangible assets

Intangible assets, which consist primarily of patents and licenses, unpatented technology and know-how and customer relationships, are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis over the estimated useful lives of the assets as principally but not exceeding the following number of years:

Patents, licenses, unpatented technology and know-how	17 years
Customer relationships	20 years

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business acquisition (note 3). Goodwill is carried at cost net of accumulated impairment losses, if any.

Goodwill is tested for impairment on an annual basis and when an event or circumstance occurs which more likely than not reduces the fair value of goodwill below its carrying amount. The amount of impairment loss, if any, is the excess of the carrying value of the goodwill over its estimated fair value. Impairment losses are charged to earnings in the year in which the impairment is identified.

Pension benefits

The Fund accrues its obligation under employee pension benefit plans and the related costs, net of plan assets. The cost of the pension benefits earned by employees is actuarially determined using the projected benefit method pro rated on service, expected plan investment performance, salary escalation, and employee retirement age.

For purposes of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service year of active employees.

Earnings per unit

The calculation of basic earnings per unit is based on the weighted average number of units issued and outstanding. Diluted earnings per unit is calculated by dividing net earnings available to Unitholders by the weighted average number of units used in the basic earnings per unit calculation plus the number of units that would be issued assuming exercise of all unit options outstanding during the year using the treasury stock method.

Unit-based compensation plans

The Fund's unit-based compensation plans consist of an Employee Unit Option Plan (EUOP), an Employee Unit Purchase Plan (EUPP) and a Long-Term Incentive Plan (LTIP). No compensation expense is recognized for the EUOP when unit options are issued to employees. Consideration paid by employees on the exercise of unit options is credited to Unitholders' equity. A compensation expense is recognized for the Fund's portion of the contributions made under the EUPP. A compensation expense is recognized for the LTIP awards as they vest over a three-year period. In note 12, pro forma net earnings and pro forma basic and diluted net earnings per unit figures are presented as if the fair value based method of accounting had been used to account for unit options granted to employees. Beginning in fiscal 2004, the Fund will expense the cost of unit options granted to employees using the fair value based method.

Future changes to accounting standards

Hedging relationships

The Canadian Institute of Chartered Accountants ("CICA") has issued Accounting Guideline AcG-13 "Hedging Relationships" that presents the views of the Accounting Standards Board on the identification, designation, documentation and effectiveness of hedging relationships, for the purpose of applying hedge accounting, as well as on the discontinuance of hedge accounting. The Guideline should be applied to hedging relationships in effect in fiscal years beginning on or after July 1, 2003. In management's opinion, the implementation of this Guideline relating to foreign exchange contracts would not have a significant impact on the financial statements of the Fund.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Future changes to accounting standards (continued)

Impairment of long-lived assets

In 2003, the CICA issued new recommendations regarding the impairment of long-lived assets applicable prospectively for the financial years beginning on or after April 1, 2003. In accordance with these new recommendations, an impairment must be recorded when the carrying amount of a long-lived asset is no longer recoverable and exceeds its fair market value. A long-lived asset is defined as a capital asset, or intangible asset with a finite useful life, a deferred pre-operating cost or a long-term prepaid asset. Management does not anticipate that this new standard will have a material effect on its consolidated results for 2004.

3 ACQUISITIONS

On April 15, 2003, the Fund acquired the 65% ownership in Poong Nam (AFT) Ltd. ("Poong Nam") that it did not own. Poong Nam became a wholly owned subsidiary from that date on. The acquisition has been accounted for using the purchase method with 100% of the results of operations included in earnings from the date of acquisition. The allocation of the purchase price is summarized as follows:

	$
Cash and cash equivalents	450
Accounts receivable	1,206
Inventories	530
Prepaid expenses	53
Property, plant and equipment	3,083
Patents and licenses, unpatended technology and know-how	680
Customer relationships	701
Accounts payable and accrued liabilities	(516)
Income taxes payable	(56)
Long-term obligations	(550)
Future income taxes	(532)
	5,049
Consideration paid in cash	5,049

In 2002, the Fund conducted some of its business through Poong Nam as an incorporated joint venture in which it held a 35% interest. The following amounts represent AFT's proportionate interest in Poong Nam in 2002.

	$
Current assets	1,939
Long-term assets	2,216
	4,155
Current liabilities	524
Long-term obligations	342
Equity	3,289
	4,155
Sales	2,183
Net earnings	180
Cash flows applied to operating activities	(547)
Cash flows applied to investing activities	(405)
Cash flows from financing activities	43

On July 31, 2003, the Fund acquired for $2,298,000, an exclusive worldwide license from Norwalk Industrial Components, LLC to commercialize its leading-edge pulp refining technology called Finebar®. The Fund also has an option to purchase the Finebar® business within three years, conditional on achieving a certain level of sales.

3 ACQUISITIONS (CONTINUED)

On March 28, 2002, the Fund acquired the assets and assumed the liabilities of the CAE Fiber Screening Division (note 1). The acquisition has been accounted for using the purchase method with the results of operations included in earnings from the date of acquisition. On November 4, 2002, the Fund signed an amendment to the Master Sales and Purchase Agreement with CAE for the purchase of the CAE Fiber Screening Division. This amendment resulted in an adjustment to the purchase price and the reimbursement by CAE of additional expenses related to the public offering and to the acquisition of the CAE fiber screening business. The allocation of the purchase price is summarized as follows:

	$
Cash and cash equivalents	1,591
Accounts receivable	11,324
Inventories	9,324
Prepaid expenses	823
Property, plant and equipment	31,351
Intangible assets	50,804
Goodwill	63,982
Bank loan	(681)
Accounts payable and accrued liabilities	(7,949)
Income taxes payable	(455)
Long-term obligations	(663)
Future income taxes	(1,723)
	157,728
Consideration paid in cash	157,728

4 INVENTORIES

	2003 $	2002 $
Raw materials and supplies	**7,448**	6,693
Work in progress and finished goods	**3,509**	2,614
	10,957	9,307

5 PROPERTY, PLANT AND EQUIPMENT

	2003 Cost $	Accumulated Depreciation $	Net Book Value $
Land	**1,669**	–	**1,669**
Buildings	**15,473**	**580**	**14,893**
Machinery and equipment and furniture and fixtures	**20,504**	**6,098**	**14,406**
	37,646	**6,678**	**30,968**

	2002 Cost $	Accumulated Depreciation $	Net Book Value $
Land	724	–	724
Buildings	14,417	245	14,172
Machinery and equipment and furniture and fixtures	19,030	2,743	16,287
	34,171	2,988	31,183

6 DEFERRED FINANCING FEES

	2003 $	2002 $
Deferred financing fees	**1,150**	986
Less: accumulated amortization	–	246
	1,150	740

All remaining deferred financing fees related to the original $39 million term loan were written off in 2003, as the loan was fully repaid.

7 INTANGIBLE ASSETS

		2003	
	Cost $	Accumulated Amortization $	Net Book Value $
Patents and licenses, unpatented technology and know-how	**28,488**	**4,637**	**23,851**
Customer relationships	**26,459**	**3,825**	**22,634**
	54,947	**8,462**	**46,485**

		2002	
	Cost $	Accumulated Amortization $	Net Book Value $
Patents and licenses, unpatented technology and know-how	25,544	1,766	23,778
Customer relationships	25,759	1,620	24,139
	51,303	3,386	47,917

8 BANK LOAN

The Fund has a revolving credit facility of up to $10,000,000 that can be used for general working capital purposes. This revolving credit facility was amended in December 2003 and is renewable in December 2006. Advances under this credit facility can be obtained in Canadian dollars by way of CDN Prime Rate Loans or Bankers' Acceptances and in U.S. dollars by way of U.S. Base Rate Loans or LIBOR Loans. The rate of interest on this facility is determined using a formula stipulated in the Amended Credit Facility Agreement. As at December 31, 2003, the applicable margin for Prime Rate Loans and U.S. Base Rate Loans would have been 1.375% and the applicable margin for LIBOR Loans and Acceptance Rate would have been 2.375%. As at December 31, 2003, the full amount of the facility was available. The facility is collateralized as part of the Senior Secured Notes (note 9). The credit facility contains financial covenants based on a minimum current ratio, a minimum EBITDA and a maximum debt to EBITDA ratio. The Fund has satisfied these requirements throughout the period.

Poong Nam has a revolving line of credit of up to $1,519,000 (1,400 million won) fully drawn for working capital as at December 31, 2003. This line of credit bears interest at 6.5% and is collateralized by land and buildings.

In addition, Poong Nam has overdraft agreements of $109,000 (100 million won), a promissory note discount facility of $1,417,000 (1,300 million won) and a $805,000 (US$200,000 plus 500 million won) credit line for payment guarantees for purchasing inventories that were available as at December 31, 2003 and not utilized.

9 LONG-TERM OBLIGATIONS

On December 23, 2003, the Fund issued, through Advanced Fiber Technologies (AFT) Trust, $45,000,000 of Senior Secured Notes which mature on December 23, 2008. These notes carry a 6.712% fixed interest rate payable quarterly in arrears. There is no amortization of principal until maturity. The net proceeds from this issue were used in part to reimburse without penalty the original $39,000,000 term loan. A general security agreement totalling $142,500,000 relating to all present and future assets owned by AFT has been provided as collateral, pari passu with the $10,000,000 revolving credit facility described in note 8.

The Fund also has an outstanding loan with the Government of Finland of $228,000 (€140,000), which matures in 2006. The loan accrues interest at the Bank of Finland's prime rate less 3% with a minimum interest rate of 1%. At December 31, 2003, the effective rate was 1%.

Poong Nam long-term obligations were $890,000 (821 million won) as at December 31, 2003. These obligations mature in 2007 and thereafter and bear interest at rates from 3% to 4.9%. Land and buildings are pledged as collateral, with a ceiling amount of $3,653,000 (3,367 million won) for both these obligations and the Poong Nam revolving line of credit described in note 8.

	2003 $	2002 $
Senior Secured Notes	**45,000**	–
Term loan	**–**	39,000
Finland loan	**228**	310
Poong Nam loan	**890**	342
Accrued pension liability (note 17)	**116**	40
	46,234	39,692
Less: current portion	**145**	78
	46,089	39,614

Annual principal repayments required over the following years are as follows:

	$
2004	145
2005	212
2006	212
2007	212
2008 and thereafter	45,453

The Senior Secured Notes contain financial covenants based on a minimum current ratio, a minimum interest coverage ratio and a maximum funded debt to EBITDA ratio. The Fund has satisfied these requirements throughout the period.

10 INCOME TAXES

The provision for income taxes in the consolidated statements of earnings represents an effective rate, which differs from the 2003 Canadian statutory rate of 33% (35.5% in 2002). The differences are as follows:

	2003 $	2002 $
Income tax expense at Canadian statutory rate	**2,766**	2,531
Increase (decrease) resulting from:		
Income of trust taxed directly to Unitholders	**(2,227)**	(2,047)
Income taxes reimbursed by CAE	**–**	(1,144)
Difference between Canadian statutory rates and those applicable to foreign subsidiaries	**42**	(228)
Reduction of future income taxes due to rate decrease	**(70)**	–
Other	**103**	(242)
Total income tax expense (recovery)	**614**	(1,130)

The tax effects of temporary differences that gave rise to future income tax assets and liabilities are as follows:

	2003 $	2002 $
Non-capital loss carry-forward	**752**	–
Property, plant and equipment and intangible assets	**(1,914)**	(556)
Other	**(196)**	–
Future income tax liabilities	**(1,358)**	(556)

In 2002, the Fund completed a tax reorganization of its foreign subsidiaries in Finland. The main element of this tax reorganization was the liquidation of CAE Screenplates Oy into Advanced Fiber Technologies (AFT) Oy. Such liquidation allowed the revaluation of tangible and intangible assets which resulted in a decrease of future tax liability of approximately $1,031,000.

On November 4, 2002, the Fund signed an amendment to the Master Sales and Purchase Agreement with CAE for the purchase of the CAE Fiber Screening Division (note 3). This amendment resulted in the reimbursement of income taxes payable on the taxable earnings of CAE Screenplates Oy. The amount of the reimbursement is estimated at $1,144,000 and is shown as a reduction of income taxes.

11 UNITHOLDERS' EQUITY

The Fund Agreement provides that an unlimited number of units may be issued. Each unit will be transferable and will represent a Unitholder's proportionate undivided ownership interest in the Fund. All units of the Fund are of the same class with equal rights and privileges. All units are not subject to future calls or assessments. No Unitholder has or is deemed to have any right of ownership in any of the assets of the Fund. Each unit confers the right to one vote at any meeting of Unitholders and to participate equally and rateably in any distributions by the Fund and, in the event of any required distribution of all property of the Fund, in the net assets of the Fund remaining after satisfaction of all liabilities.

The units have no conversion, retraction, redemption or pre-emptive rights except that units are redeemable at any time at the option of the holder at amounts related to market prices at that time, subject to a maximum $50,000 in cash redemptions by the Fund in any one month. This limitation may be waived at the discretion of the Trustees of the Fund. If a Unitholder is not entitled to receive cash upon the redemption of units as a result of the foregoing limitation, then the redemption price for such units shall be paid by way of distribution in kind of a pro rata number of AFT Notes.

On March 28, 2002, the Fund completed an initial public offering of 13,083,333 units of the Fund at a price of $10.00 per unit. On November 4, 2002, an amendment to the Master Sales and Purchase Agreement between CAE and AFT resulted in additional expenses related to the offering being reimbursed by CAE. The net proceeds to the Fund therefore amounted to $119,715,340, net of underwriting commissions and other expenses of the offering in the amount of $11,117,990.

During 2003, 13,083 new units were issued further to the exercise of unit options by one senior executive, for total proceeds of $130,830 paid in cash.

12 UNIT-BASED COMPENSATION PLANS

Employee unit option plan

Under the Fund's long-term incentive plan (LTIP), options may be granted to officers and other key employees of the Fund and its subsidiaries to purchase units of the Fund at a subscription price of 100% of the market value. Market value is determined as the closing price of the units on the Toronto Stock Exchange on the last day of trading prior to the effective date of the grant.

At December 31, 2003, a total of 641,083 units remained authorized for issuance under the Plan. The options are exercisable during a period not exceeding ten years, and are not exercisable during the first 12 months after the date of the grant. The right to exercise all the options accrues over a period of five years of continuous employment. However, if there is a change of control of the Fund, the options become immediately exercisable. Options are adjusted proportionately for any unit dividends or unit splits attributed to the units of the Fund.

A reconciliation of the outstanding options is as follows:

	2003		2002	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Options outstanding at beginning of period	**556,043**	**10.00**	–	–
Granted	**65,417**	**10.21**	556,043	10.00
Exercised	**(13,083)**	**10.00**	–	–
Forfeited	**(65,417)**	**10.00**	–	–
Options outstanding at end of period	**542,960**	**10.03**	556,043	10.00
Options exercisable at end of period	**85,043**	**10.00**	–	–

The following table summarizes information about the Fund's employee unit option plan as at December 31, 2003:

		Options Outstanding			Options Exercisable	
	Exercise Price $	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price $	Number Exercisable	Weighted Average Exercise Price $
	10.00	**477,543**	**8.6**	**10.00**	**85,043**	**10.00**
	10.21	**65,417**	**9.2**	**10.21**	–	–
Total		**542,960**	**8.7**	**10.03**	**85,043**	**10.00**

12 UNIT-BASED COMPENSATION PLANS (CONTINUED)

The Fund granted 65,417 options to purchase units during 2003 and 566,043 options to purchase units in 2002. The fair value of options granted amounted to $0.05 per option in 2003 and to $0.00 per option in 2002. To compute the pro forma compensation cost, the Black-Scholes valuation model was used to determine the fair value of the options granted. Pro forma net earnings and pro forma basic and diluted net earnings per unit and the assumptions used in the calculation are presented below:

(amounts in thousands except per-unit amounts and assumptions data)	2003 $	2002 $
Net earnings, as reported	**7,768**	8,259
Pro forma impact	**3**	–
Pro forma net earnings	**7,765**	8,259
Pro forma basic and diluted net earnings per unit	**0.59**	0.63
Assumptions used in Black-Scholes options pricing model:		
Dividend yield	**11.75%**	12.00%
Expected volatility	**13.7%**	5.5%
Risk-free interest rate	**5%**	6%
Expected life (years)	**10**	10

Employee unit purchase plan

The Fund maintains an employee unit purchase plan (EUPP or "the Plan") that enables employees of the Fund and its participating subsidiaries to acquire AFT units through regular payroll deductions plus employer contributions. The Plan allows employees to contribute up to 10% of their annual base salary. The Fund and its participating subsidiaries match the first $500 employee contribution and contribute $1 for every $3 on additional employee contributions, to a maximum of 2% of the employee's base salary. Matching contributions vest at the beginning of the third year following the year during which the employee contributions were made, provided employment has been continuous during that period. Units of the Fund are purchased by the EUPP trustee on behalf of the participants on the open market, through the facilities of the Toronto Stock Exchange. Since inception in 2003, 19,500 units were purchased by the Trustee. The Fund recorded compensation expenses in the amount of $109,000 in respect of employer contributions under the Plan in 2003.

Long-term incentive plans

Two LTIPs have been adopted by the Fund and its subsidiaries. Both LTIPs have the same terms and conditions which are summarized hereunder except that one LTIP was adopted by the Fund for the benefit of its officers and full-time employees, which are subject to the Income Tax Act (Canada) and the other was adopted by the Fund for the benefit of the officers and full-time employees of the Fund and its subsidiaries which are not subject to the Income tax Act (Canada).

A pool of funds is set aside based upon the Fund's financial performance benchmarked against certain distributable cash threshold amounts for the benefit of certain officers and full-time employees. Units are purchased on the open market with such pool and held until ownership vests over a period of three years.

During 2003, a total of $143,000 was calculated for disbursement in 2004. This amount will be expensed as compensation costs over the three-year vesting period starting in 2004.

13 CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENT

Unrealized translation adjustments arise on the translation of foreign currency denominated assets and liabilities of self-sustaining foreign operations. An unrealized foreign exchange gain of $2,005,000 existed at December 31, 2003 compared with an unrealized foreign exchange gain of $3,445,000 at December 31, 2002. The decrease in the gain is predominantly due to the decrease in the euro exchange rate in 2003 versus 2002.

14 OTHER INFORMATION ON STATEMENTS OF EARNINGS

Research and development costs

Total research and development costs represented $1,179,000 in 2003 and $653,000 for the nine-month period in 2002 and were charged to earnings.

Gains on foreign exchange

During 2003, a total gain of $708,000 ($28,000 in 2002) was realized on loans denominated in U.S. dollars and euros, and a gain of $480,000 was realized on unhedged cash flows denominated in U.S. dollars and euros.

15 ADDITIONAL INFORMATION ON CASH FLOWS

Changes in non-cash working capital items

	2003 $	2002 $
Accounts receivable	**(782)**	(1,005)
Inventories	**(1,465)**	876
Prepaid expenses	**132**	(42)
Accounts payable and accrued liabilities	**3,054**	1,004
Income taxes payable	**139**	(418)
	1,078	415

Interest and income taxes paid

	2003 $	2002 $
Interest paid	**2,773**	1,708
Income taxes paid	**139**	39

16 SEGMENT INFORMATION

Management analyses performance of the Fund under one reportable segment, that being the design, manufacture and distribution of pulp screening and refining components. Geographic information is detailed as follows:

	Sales		Property, plant and equipment, intangible assets and goodwill	
	2003 $	2002 $	2003 $	2002 $
Canada	**9,794**	5,827	**77,175**	79,935
United States	**16,577**	14,456	**–**	–
South America	**1,769**	1,116	**–**	–
Europe	**33,463**	25,217	**57,443**	60,931
Asia	**15,018**	6,922	**6,817**	2,216
Other foreign countries	**1,424**	934	**–**	–
	78,045	54,472	**141,435**	143,082

Revenues have been allocated to geographic regions based on the region in which the customer is domiciled.

17 PENSIONS

The Fund has defined benefit plans for some employees. These plans provide benefits based on length of service and final average earnings. The Fund has an obligation to ensure that there are sufficient funds in the plans to pay the benefits earned.

Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits. Plan assets are represented primarily by Canadian and foreign equities and government and corporate bonds.

The changes in the pension obligations and in the fair value of assets and the funded status of the defined benefits plans are as follows:

	2003 $	2002 $
Change in pension obligations		
Pension obligation, beginning of period	**2,634**	2,362
Current service cost	**184**	150
Interest cost	**182**	122
Pension benefits paid	**(50)**	–
Pension obligation, end of period	**2,950**	2,634
Change in fair value of plan assets		
Fair value of plan assets, beginning of period	**2,074**	2,087
Return on plan assets	**221**	(146)
Employer contributions	**111**	91
Employee contributions	**50**	42
Pension benefits paid	**(50)**	–
Fair value of plan assets, end of period	**2,406**	2,074
Funded status-plan deficits	**(543)**	(559)
Unrecognized net actuarial loss	**186**	259
Unrecognized transitional balance	**241**	260
Accrued pension liability	**(116)**	(40)

17 PENSIONS (CONTINUED)

The significant actuarial assumptions adopted in measuring the Fund's accrued benefit obligations are as follows:

	2003 $	2002 $
Return on plan assets	**7.0%**	7.0%
Discount rate for pension benefits obligations	**6.5%**	6.5%
Compensation rate increase	**3.5% to 4.0%**	3.5% to 4.0%

The net pension expense for the periods ended December 31 included the following components:

	2003 $	2002 $
Current service cost	**134**	108
Interest costs on projected pension obligations	**182**	123
Expected return on plan assets	**(149)**	(113)
Amortization of transitional obligation	**19**	14
Amortization of net actuarial loss	**1**	–
Net pension expense	**187**	132

18 FINANCIAL INSTRUMENTS

Currency risks

The Fund has purchased a series of forward exchange contracts to sell U.S. dollars and euros for Canadian dollars at various future dates. As at December 31, 2003, the Fund had a total of US$13,600,000 and €14,850,000 in forward contracts maturing within the next 36 months. The exchange rates on these contracts ranged from C$1.3225/US$1.00 to C$1.6168/US$1.00 and from C$1.5629/€1.00 to C$1.6534/€1.00. As at December 31, 2003, the amount of unrealized gain on these forward exchange contracts was approximately C$1,246,000 (unrealized loss of approximately C$526,000 in 2002).

Credit and concentration risk

Financial instruments, which potentially subject the Fund to credit risk, consist principally of cash and cash equivalents, accounts receivable and forward exchange contracts. The Fund's cash and cash equivalents and forward exchange contracts are maintained with major financial institutions; therefore, the Fund considers the risk of non-performance on these instruments to be remote.

Substantially all of the Fund's customers operate in the pulp and paper industry; therefore, the ability of the Fund's customers to honour their debts is dependent on the general economic strength of the pulp and paper industry. Generally, the Fund does not require collateral or other security from customers for trade accounts receivable; however, credit is extended to customers following an evaluation of credit worthiness. In order to compensate for the above-noted risk, the Fund performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts when collection is determined to be doubtful. In addition, the Fund has entered into an agreement with the Export Development Corporation wherein the latter has insured the risk of loss in case of bankruptcy for up to 90% of Lennoxville, Quebec accounts receivable from certain designated customers, to a maximum of $1,500,000 for Canadian customers and $5,000,000 for foreign customers in any given year. As at December 31, 2003, accounts receivable totalling approximately $5,274,000 were insured under this agreement.

Fair value

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and cash distributions payable are short-term financial instruments whose fair values approximate their carrying values.

The fair value of long-term obligations was determined by discounting future cash flows using interest rates which the Fund could obtain for loans with similar terms, conditions and maturities. As at December 31, 2003, there was no material difference between the carrying value and the fair value of long-term obligations.

19 CONTINGENCIES

Environmental matters
The Fund is subject to a wide range of governmental requirements relating to employee health and safety and to the handling of and emission into the environment of various substances used in its operations. The Fund is subject to certain provisions of environmental laws, particularly in Canada, governing the emission of contaminants into the environment and the clean-up of soil and groundwater contaminations. Such provisions impose liability for the costs of investigating and remedying releases of hazardous materials at currently operated sites of the Fund. In certain circumstances, this liability may also include the cost of cleaning up historical contamination, whether or not caused by the Fund.

The Fund's policy is to establish financial provisions to cover environmental liabilities where they are probable and can be reasonably estimated. The Fund has determined, based on the best available information, that no such provisions are currently required. Although the Fund believes that there are currently no known material environmental liabilities, there can be no assurance that environmental liabilities will not arise in the future or that any such liabilities will not have a material adverse effect on the Fund's consolidated financial position, results of operations or cash flows. An indemnity, unlimited as to duration or amount and subject to certain conditions, is provided by CAE with respect to any remediation costs required by law or pursuant to an order of any governmental entity incurred by the Fund and arising from the pre-closing contamination of the Lennoxville, Quebec facility.

20 OPERATING LEASE COMMITMENTS AND GUARANTEES

Future minimum lease payments under operating leases are as follows:

	$
Years ending December 31,	
2004	345
2005	165
2006	51
2007	8
	569

At December 31, 2003, in management's opinion, no significant guarantees had been provided to third parties.

21 SUBSEQUENT EVENT

On January 26, 2004, AFT signed a Letter of Intent to acquire the assets of Optimum Filtration, conditional on due diligence. This acquisition will be financed from the existing credit facility. Optimum is involved in the design and manufacture of screw presses and components, as well as providing process optimization and other services to the pulp and paper industry.

22 COMPARATIVE FIGURES

Since the Fund commenced active operations on March 28, 2002, the comparative figures presented are for the period from March 28, 2002 to December 31, 2002. Certain comparative figures have been reclassified to conform to the current year presentation.

PAUL B. SPAFFORD [*,1]
Chairman of the Board,
Advanced Fiber Technologies (AFT) Income Fund;
Vice Chairman and Managing Director, CIBC World Markets Inc.,
Toronto, Ontario

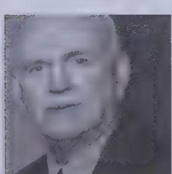
Mr. Spafford joined the corporate finance department of Wood Gundy in 1976, and became Director, Mergers and Acquisitions, in 1984. He has been involved in many of Canada's most significant mergers and acquisitions, as well as divestitures, take-over bids and take-over defences. He has also covered a broad range of corporate finance activities, including public and private debt and equity financings, as well as advisory assignments.

ROCH LEBLANC
President and Chief Executive Officer,
Advanced Fiber Technologies (AFT) Income Fund,
Sherbrooke, Quebec

Mr. Leblanc joined AFT in 1999. In 2000, he was appointed President, Forestry Systems, Pulp and Paper Division, where he led the integration of the Lennoxville and Varkaus operations and subsequently the negotiation of a 35% interest in Poong Nam Screen Co., Ltd. On March 28, 2002, he was appointed President and Chief Executive Officer of AFT's newly formed Income Fund. From 1988 to 1999, Mr. Leblanc was Vice President & General Manager of Camoplast Inc. (formerly a division of Bombardier Inc.), a manufacturer of polymer products for the motorized vehicle industry.

TOM BATTERSHILL [1,2]
President,
Proconex Consultants,
Beaconsfield, Quebec

Mr. Battershill has 36 years' experience in the pulp and paper industry, including 28 years in the process control area. From 1976 to 1985, he was Manager, Process Systems, Consolidated Bathurst Inc. in Montreal, having previously held various positions in process control at the Company's plant in Portage du Fort, Quebec.



JIM ROGERS [1,2]
Trustee,
St-Lazare, Quebec

Mr. Rogers retired from the Pulp and Paper Research Institute of Canada (Paprican) in 2001, where he had served as Senior Vice President, Research and Education programs, for 12 years. Previously, he was Vice President and Director of the Vancouver Laboratory of Paprican. Mr. Rogers earned a honoris causa Ph.D. from Memorial University of Newfoundland and a M.Eng. in chemical engineering from the University of Birmingham, England.

FRANÇOIS R. ROY [*,2]
Consultant
Montreal, Quebec

Mr. Roy was Chief Financial Officer of Telemedia Corporation from 2000 to 2003. From 1998 to 2000, he was Executive Vice President and Chief Financial Officer, Quebecor Inc., a holding company which had an interest in the forest products industry through a controlling interest in Donohue Inc. From 1997 to 1998, he was Executive Vice President and Chief Financial Officer, Avenor Inc., a forest products company.

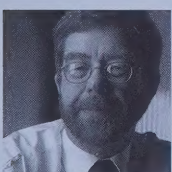
[*] *Committee Chairperson*
[1] *Compensation and Corporate Governance Committee*
[2] *Audit Committee*

Corporate Governance
Further details of the Fund's approach to corporate governance issues are contained in the Management Information Circular for the 2004 Annual Meeting of Unitholders.

ROCH LEBLANC
President and
Chief Executive Officer

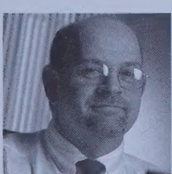
NORMAND POTVIN
Chief Financial Officer
and Secretary

Mr. Potvin, CA and CMA, joined AFT in April 2002 and is responsible for all Finance and Accounting functions as well as Investor Relations. Prior to joining AFT, starting in 2001, Mr. Potvin was Vice President Finance of Deragon Inc. and General Manager of Deragon Leasing Inc., which are privately owned companies in the automobile industry. Previously, Mr. Potvin had been the Chief Financial Officer of two publicly traded companies, Shermag Inc., a manufacturer of residential furniture, and Circo Craft Co Inc., a manufacturer of printed circuit boards.



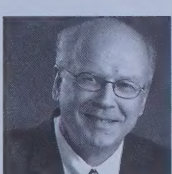
ROBERT W. GOODING, Ph.D
Vice President, Technology

Mr. Gooding joined AFT in June 2001 and is responsible for managing AFT's technology group. Prior to joining AFT, Mr. Gooding managed screening research at the Pulp and Paper Research Institute of Canada and has 20 years of experience in this field. He earned a Ph.D. and M.A.Sc. in chemical engineering from the University of British Columbia in Vancouver and a B.Eng.(Mechanical) from McGill University in Montreal.



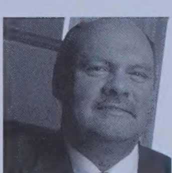
PETER MACCINI
Vice President,
Sales and Marketing

Mr. Maccini was appointed to his current position in 2003. He is responsible for leading and managing AFT's global network as well as developing and implementing AFT's sales and marketing strategies. Mr. Maccini joined AFT in January 2001 as Sales Representative and thereafter held the position of Director of Sales, North America. Prior to joining AFT, he was District Manager for Beloit Corporation.



KARI RAUTAMAKI
Vice President,
Operations – Europe and Asia

Mr. Rautamaki joined AFT in 1992 when it acquired the pulp screening business of Ahlstrom. He has 33 years' experience in the pulp and paper industry, having worked for such companies as United Paper Mills of Jylhavaara (now METSO Corporation) and Ahlstrom (now Andritz). Mr. Rautamaki is based in Finland, where he is responsible for the Varkaus facility, as well as overseeing the Incheon facility in South Korea.



DENIS FONTAINE
Vice President,
Operations – Americas

Mr. Fontaine was appointed to his current position in 2001. He is responsible for overseeing the Lennoxville Facility's operational efficiency and productivity improvements. Mr. Fontaine has been with AFT for over 20 years and has held management positions in the area of finance and IT such as Finance Director, Project Manager and Senior Accounting Manager.

INVESTOR ENQUIRIES

Normand Potvin
Chief Financial Officer and Secretary
Advanced Fiber Technologies (AFT)
Income Fund
Tel.: (819) 821-4930 ext. 282
Fax: (819) 562-6849
E-mail: normand.potvin@aft-global.com

MAILING ADDRESS

Advanced Fiber Technologies (AFT)
Income Fund
72 Queen Street
Lennoxville, Quebec
J1M 2C3

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario
M5J 2Y1
Tel.: 1-800-564-6253
E-mail: service@computershare.com
Website: http://www.computershare.com

AUDITORS

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.

LEGAL COUNSEL

Lavery, de Billy

DISTRIBUTION RE-INVESTMENT PLAN (DRIP)

A description of the Fund's DRIP is available on the Company's website at www.aft-global.com.

For further information, Unitholders are advised to consult with their investment advisor.

Ce rapport annuel est également disponible en français

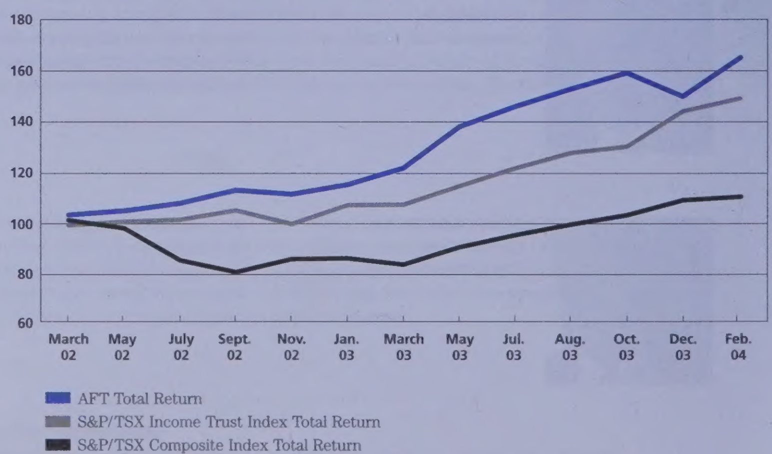
MARKET INFORMATION

(at December 31, 2003)
Symbol: AFT.UN
Listing: TSX
IPO: March 28, 2002
Units outstanding: 13,096,416
High/low: $13.74/$10.21
Market capitalization (as at March 1, 2004): $182,000,000
Recent unit price (March 1, 2004): $13.90

CASH DISTRIBUTIONS

The distribution policy of Advanced Fiber Technology (AFT) Income Fund is to make monthly cash distributions of $0.10 per Fund unit to Unitholders of record on the last business day of each month.

AFT'S MARKET PERFORMANCE VERSUS THE S&P/TSX INCOME TRUST AND THE S&P/TSX COMPOSITE INDICES*



* Includes reinvested distributions.

ANNUAL MEETING

The Annual Meeting
of Unitholders will be held
on April 6, 2004 at 9:00 a.m.
at the Omni Mont-Royal Hotel
Salon Été
1050 Sherbrooke Street West
Montreal, Quebec

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ADVANCED FIBER TECHNOLOGIES (AFT) INCOME FUND
72 Queen Street
Lennoxville, Québec
J1M 2C3
Tel.: (819) 562-4754
Fax: (819) 562-6849
www.aft-global.com

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